Canadian Real Estate
Market Update

Q3 2025

FIERA REAL ESTATE

Canadian Economic Summary

Economic Growth Trends[1]

- Canada's economy contracted by 1.6% annualized in Q2 2025 (latest reading), reversing the prior quarter's revised 2.0% growth and falling short of expectations
- While the headline figure suggested a soft patch, the underlying story was one of an external drag rather than domestic deterioration
- The decline was driven by a 7.5% drop in exports, the steepest since 2020, as U.S. tariff measures temporarily disrupted trade flows
- Key export categories such as passenger vehicles (-24.7%) and industrial machinery (-18.5%) were hardest hit
- Encouragingly, final domestic demand rose at its fastest pace in a year, buoyed by resilient household consumption and a rebound in public-sector spending
- More recently, preliminary gross domestic product ("GDP") shows July as the strongest month since January, with August holding steady, signaling stabilization
- Further, corporate inventory builds point to business confidence in improving demand as trade tensions ease
- Overall conditions suggest Canada is well positioned for a growth rebound as external pressures normalize

Employment Trends[2]

- In September, Canada created 60,000 jobs (+0.3%), reversing two months of declines
- The unemployment rate held at 7.1%
- Gains were concentrated in full-time work (+106,000), while part-time jobs fell (-46,000)
- By industry, manufacturing led with +28,000 jobs, followed by health care (+14,000) and agriculture (+13,000)
- Alberta led regionally with +43,000 jobs (+1.7%), as its unemployment rate eased to 7.8%
- Wages grew by 3.3% year over year ("Y/Y"), supporting real income gains amid contained inflation
- Overall, conditions point to a resilient labour market

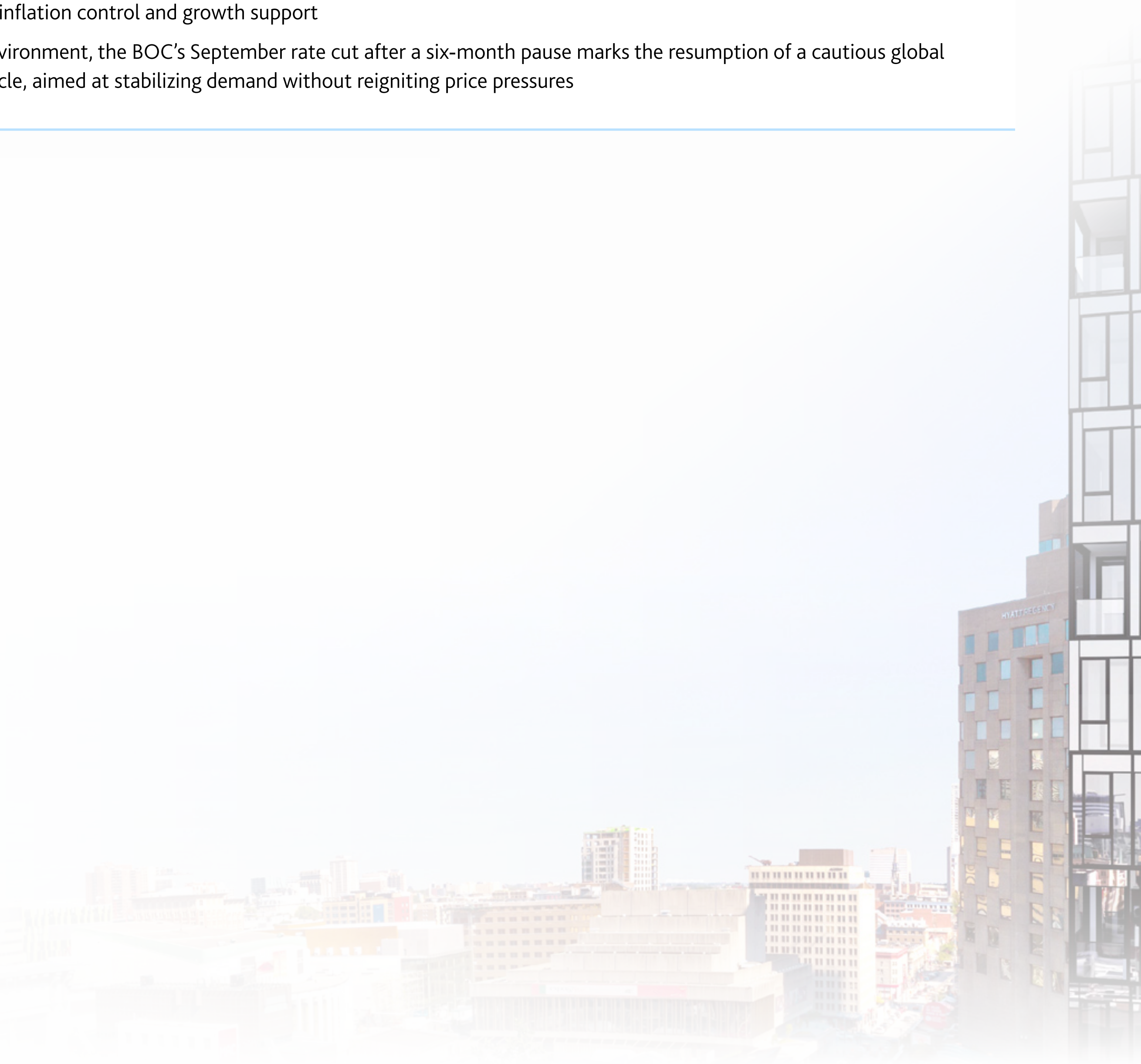
All figures are in Canadian dollars unless specified otherwise.

Inflation Trends[3]

- Headline inflation accelerated modestly in September, with the Consumer Price Index ("CPI") rising 2.4% Y/Y, up from 1.9% in August
- The increase was driven by a smaller annual decline in gasoline prices (-4.1% vs. -12.7% the year prior) and firmer food costs, with grocery prices climbing 4.0%
- Inflation expectations are still well-anchored, and pipeline cost pressures continue to ease

Monetary Policy Responses[4]

- The Bank of Canada ("BOC") cut its policy rate by 25 basis points ("bps") in September and October, bringing the overnight rate to 2.25%, after a six-month pause
- Policymakers signaled additional easing could follow if growth fails to re-accelerate, reaffirming a balanced approach between inflation control and growth support
- In this environment, the BOC's September rate cut after a six-month pause marks the resumption of a cautious global easing cycle, aimed at stabilizing demand without reigniting price pressures



Real Estate Market Trends

Industrial[5]

- Canada's industrial market continued to normalize through Q3 2025, transitioning from post-pandemic exuberance to a more sustainable equilibrium
- National availability rose slightly to 5.5% (+0.2% quarter over quarter ["Q/Q"]), with net absorption modestly negative, indicating stabilization rather than deterioration
- The construction pipeline remained steady at 26 million square feet ("sf"), roughly half pre-leased, reflecting tenant confidence in long-term logistics demand
- Secondary markets like Calgary and Edmonton led leasing gains, while Toronto and Montreal saw temporary slowdowns tied to trade uncertainty and new completions
- Rents eased 3% Y/Y, but remain well above pre-pandemic levels, supported by tight vacancy in prime logistics corridors
- Industrial pricing remains firm, with the national average asking sale price near $310 per sf (just -1.7% Y/Y); sustained investor demand is supporting achieved prices, with industrial leading quarterly investment volumes in 12 of the past 14 quarters

Summary

Despite near-term softness, industrial fundamentals remain robust. Developers are exhibiting discipline, yields are stable and the long-term drivers of e-commerce growth, nearshoring and supply-chain resilience continue to underpin the sector's relative strength amid Canada's slower economic growth.

Multi-Residential[6]

- The national vacancy rate edged above 2%, up from 1.5% a year earlier, marking a cyclical easing but within structurally tight conditions
- Luxury units in Toronto and Vancouver are seeing the sharpest normalization, while purpose-built completions remain elevated, with approximately 90% of new starts being Canada Mortgage and Housing Corporation ("CMHC")-backed under programs such as Mortgage Loan Insurance ("MLI") Select
- Slower inflows of non-permanent residents and higher youth unemployment are weighing on leasing velocity, particularly in student-oriented and immigration-reliant markets
- Advertised rents have softened, yet the rent-to-income ratio remains near 14%, underscoring continued affordability constraints
- In Toronto, rent gaps exceeding 40% between newly built and occupied units limit tenant mobility and turnover

Summary

Despite cyclical moderation, the long-term outlook remains strong. With renters now outnumbering owners in Canada's largest cities and capitalization rates holding steady, multi-residential continues to attract institutional capital for its income durability, policy support and structural undersupply.

Retail[7]

- Canada's retail sector continues to demonstrate quiet resilience, balancing weaker discretionary spending with steady demand in necessity-based formats
- In H1 2025, national vacancy edged up to 5.5% (+0.3% over the last six months), which keeps it still near historical lows and indicative of a broadly balanced market
- Enclosed malls and urban street fronts remain under pressure and have seen high-profile closures such as Hudson's Bay Company
- In contrast, grocery, pharmacy and essential-service tenants anchor highly sought-after assets
- Experiential and food-based retail are driving activity in transit-oriented nodes where density and accessibility support long-term viability
- New supply remains muted and is largely tied to mixed-use redevelopments, limiting competitive pressure

Summary

Investors are increasingly focused on neighbourhood and community centres for their defensive tenant mix and redevelopment potential. With limited new construction and essential retail anchoring demand, the sector remains durable and income-resilient, even amid slower economic growth.

Office[8]

- Canada's office market remains structurally challenged, with national vacancy holding high at 18.4% (the lowest since early 2023), but still near record levels
- Leasing strength in Toronto and select major centres was offset by ongoing weakness across older stock
- Trophy and Class 'A' buildings continue to outperform, benefiting from return-to-office ("RTO") mandates and tenant consolidation, while commodity space faces persistent obsolescence risk
- Sublease availability has fallen 30% from peak, though mainly from space withdrawals and expirations rather than organic demand growth
- New construction is limited (0.5% of inventory), and conversions to residential use are gradually reducing obsolete stock, but not enough to materially lift fundamentals near term

Summary

Without a *structural* rebound in tenant demand, Canada's office sector faces a prolonged adjustment phase. Flight-to-quality will remain the dominant theme, while older assets will continue to struggle with vacancy, capex needs and valuation pressure through at least 2027.

Canadian Economic & Real Estate Outlook[9]

- Looking ahead, Fiera Capital assigns a 40% base-case probability to a "stagflation" scenario, marked by elevated but stabilizing inflation and a gradual policy pivot toward renewed growth support
- While sweeping U.S. tariffs across a broad range of trading partners temporarily weigh on global trade and sentiment, the eventual scope of measures proves less impactful than feared, and Canada benefits from relative insulation through Canada-United States-Mexico Agreement ("CUSMA") exclusions; however, the agreement is up for negotiation in 2026
- Though tariffs add to price pressures, inflation remains well-anchored, allowing central banks to cautiously ease policy and lay the groundwork for recovery
- The result is an environment of slower but resilient growth, where disciplined policy recalibration helps contain risks while preserving long-term stability
- In this setting, real assets with durable income streams and intrinsic pricing power, such as institutional real estate, stands to benefit, providing investors with both stability and inflation protection as policy normalization unfolds
- Focusing on commercial real estate, investment volumes have remained steady above $10 billion for a third straight quarter – deal counts are up 7.5% and, most importantly, pension funds represented their largest percentage of deal activity in the quarter since 2018, a clear sign of reaccumulating liquidity[10]
- As interest rates continue to fall and confidence rebuilds, transaction volumes are set to accelerate, restoring momentum and positive pricing momentum to private real estate
- Institutional assets with durable income and pricing power stand to outperform, offering both stability and inflation protection through the next phase of recovery

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Endnotes

1 Gross domestic product, income and expenditure, second quarter 2025 – Statistics Canada – Released: 2025-08-29 – https://www150.statcan.gc.ca/n1/daily-quotidien/250829/dq250829a-eng.htm?HPA=1&indid=3278-1&indgeo=0

2 Labour Force Survey, September 2025 – Statistics Canada – Released: 2025-10-10 – https://www150.statcan.gc.ca/n1/daily-quotidien/251010/dq251010a-eng.htm?HPA=1&indid=3587-2&indgeo=0

3 Consumer Price Index, August 2025- Statistics Canada – Released: 2025-09-16 – https://www150.statcan.gc.ca/n1/daily-quotidien/250916/dq250916a-eng.htm?HPA=1&indid=3665-1&indgeo=0

4 Bank of Canada lowers policy rate to 2½% - Bank of Canada – September 17, 2025 – https://www.bankofcanada.ca/2025/09/fad-press-release-2025-09-17/

5 Canada Industrial Figures - CBRE – Q3 2025 – https://www.cbre-ea.com/data/iprojects

6 2025 Mid-Year Rental Market Update – CMHC – July 8, 2025 – https://www.cmhc-schl.gc.ca/observer/2025/2025-mid-year-rental-market-update?utm_source=linkedin&utm_medium=canada+mortgage+and+housing+corporation+%28cmhc%29+soci%C3%A9t%C3%A9+canadienne+d%27hypoth%C3%A8ques+et+de+logement%28schl%29&utm_content=organic&utm_campaign=RMR

7 Canada Historical Retail 2025 H1 – CBRE – H1 2025 – https://www.cbre-ea.com/data/iprojects

8 Canada Office Figures - CBRE – Q3 2025 – https://www.cbre-ea.com/data/iprojects

9 Fiera Capital Global Asset Allocation – Fiera Capital Corporation – October 2025 – Internal Document

10 Canada Investment Overview - CBRE – Q2 2025 – https://www.cbre-ea.com/data/iprojects

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